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SUBJECT: USEU AMBASSADOR C. BOYDEN GRAY'S MEETINGS WITH  
GERMAN OFFICIALS

Classified By: EMIN ROBERT F. CEKUTA FOR REASONS 1.5 (B) AND (D).

¶1. (C) SUMMARY. On February 7, USEU Ambassador C. Boyden Gray met with German Chancellery State Secretary Dr. Hans Beus, Chancellery Director of Coordination for European Policy Andreas Hermes, and the Chancellery's Economic Advisor Dr. Jens Weidmann to discuss key issues in Germany's EU Presidency. Principle focal points were the Chancellor's transatlantic economic initiative and energy/climate change. Both issues, the German side said, will figure prominently in the March 8-9 European Council. Weidmann and Beus noted how the Chancellor's initiative is an important part of the effort to cut red tape, improve the business climate, and establish better regulatory practices in both the EU and Germany. Hermes also stated that the Chancellor's initiative is designed to boost links with the U.S. and to move away from the Schroeder government's emphasis on stronger ties with Russia. Weidmann passed a copy of the new German paper on the initiative that had been discussed that day in COREPER (NOTE. Embassy Berlin has emailed the text of the paper to EUR/ERA and to USEU. END NOTE.) END SUMMARY.

#### Transatlantic Initiative

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¶2. (C) Weidmann said he appreciated the warm welcome he received in Washington and also the U.S. response to the German proposal on a transatlantic marketplace. The Chancellery featured the U.S. thinking along with further input from the German ministries in the new paper they drafted for COREPER. Weidmann provided Ambassador Gray a copy of the new paper (text subsequently emailed to EUR/ERA).

The Germans plan to use this paper as the basis for discussion among the U.S., the German Presidency, and Commission contact points. The focus will be on the goals the German Presidency hopes to achieve through the initiative, as well as the potential statement formulation and how to make a binding commitment to improve cooperation and provide the resources needed to achieve this end, including ensuring there is political level engagement when necessary. Hermes emphasized the transatlantic initiative is not just an economic program, but also has a political role. He explained the Chancellor sees it as a means to strengthen transatlantic ties and "counterbalance" the SPD's focus on Russia.

¶3. (C) Beus described the ties between the Chancellor's transatlantic initiative and her focus on the need for deregulation/regulatory reform in Germany and the EU. He emphasized the goal is not just an attempt to harmonize regulations across the Atlantic, but to simplify the overall regulatory burden for the business community. The problem in Germany and the EU, he said, has been that the government will establish a goal and then put a lot of bureaucracy in place in an effort to realize it. The practice is different in the U.S., he continued. The Chancellery would like to take steps through the initiative to reduce bureaucracy and adopt practices more in line with the U.S. model. Beus highlighted the Commission's proposal to cut 25% of reporting requirements by 2012. This measure, and how to integrate a

reduction of the regulatory burden for businesses into the overall transatlantic relationship, will be a major focus of the March 8-9 European Council meeting.

14. (C) Ambassador Gray replied that Europe is where the U.S. was 10 or 15 years ago on deregulation and that our experience should be of use to the European push for smarter regulation. The OMB has played a major role in encouraging good regulation by requiring cost-benefit analyses of new regulations. The EU's Impact Assessment Board could play a similar role. Hermes added that the Chancellor believes the Impact Assessment Board may not be independent enough to play the role needed for ensuring regulatory reform. He said there is a belief impact assessments are tailored more to political realities than economic realities. Gray also said the Commission's proposal for a target of a 25% reduction will be of interest in Washington where some have wondered whether the EU's push for transatlantic regulatory cooperation is an attempt to impose an EU-like regulatory burden on U.S. companies. Beus reiterated the overall goal of the proposal is convergence and simplification.

15. (C) Weidmann said that Germany is also looking at ways to win the support of the other 26 member states for the proposal. The Chancellery wants to involve legislators in the process and hopes to do so at a March 19 CDU conference on the initiative. Weidmann emphasized that there needs to be a way to create an interface between legislators and regulators. He suggested a good tactic may be to publicize the cost of not implementing this proposal. Ambassador Gray emphasized that the Europeans recognize the role of Congress in this process. He said the interface Weidmann referred to could be a joint economic committee of both houses and offered to explore this with Senator Bennett. Weidmann said an important point is how to sustain the initiative after Germany no longer holds the EU presidency; Barroso must be brought into the issue as well to ensure continuity. Gray replied the Commission definitely needs to be involved and the Impact Assessment Board is the best place to start. Neither Mandelson nor the other commissioners have the expertise to deal with this issue, but they also do not want to see it under the control of their rivals. Weidmann agreed and said the only way to avoid friction between the different director generals on the transatlantic initiative is to coordinate it in the President's office. He said he would discuss it in more detail in the upcoming DVC with Deputy National Security Advisor for Economics David McCormick.

#### ENERGY/CLIMATE

16. (C) Beus also discussed the Commission's proposal for unbundling energy production from delivery. He said there are two different proposals to reach this target. One would force separate ownership of production and delivery infrastructure. The other option is to allow the same ownership of these systems, but to separate the management of the production and delivery networks within companies. The German government prefers the second option. Beus emphasized that the first option would cause considerable problems for Germany. Ambassador Gray explained the second option more closely resembled the U.S. system and the use of independent system operators to manage power grids. Hermes commented that the Commission's push for unbundling seemed ideologically based. Regulation is needed at some level, but interconnection is also necessary for competition. (NOTE: On Feb. 7 thousands of members of the Energy Workers' and Service Employees' unions demonstrated in Berlin against the EC's unbundling proposal, arguing that it will endanger jobs and impair the efficiency of Germany's electrical power supply system, which the unions claim is the most reliable in the EU. END NOTE.)

17. (U) On climate protection, Beus emphasized reducing greenhouse gases is a top goal for both Germany's EU and G-8 presidencies. At the same time it is important to note the EU's emissions are only 15-20% of the worldwide total. Without engaging developing economies such as China and India, post 2012 reduction targets will be meaningless. Germany is focusing on post-Kyoto targets to 2020 that

balance the need to decrease emissions and allow for economic growth. Energy/climate change will be high on the agenda for European Council on March 8-9.

¶18. (U) Ambassador Gray agreed that climate change is a major challenge. He said the U.S. position on this subject was not well understood. Contrary to what is often believed in Europe, President Bush has not denied climate change nor the role humans play in causing it. The U.S. has focused its effort on investing in new technologies to decrease greenhouse gases. There is healthy competition to develop clean energy technologies, a competition that must continue and should be encouraged. While there is no magic bullet, but several promising technologies. Ambassador Gray added the U.S. and EU need to work together to engage countries such as China and India to ensure they don't ignore climate change.

¶19. (C) Beus agreed, saying we do not have the luxury of allowing China to develop economically and only start to focus decades from now on environment and climate change. China needs to be encouraged to look at climate change and its environmental impact at the same time that they develop their economy. The EU and U.S. need to work together to influence China. We must also pay attention to developments in India. Ambassador Gray said one tactic could be to engage India on this issue to help China see the benefits of environmental protection and emission reductions.

#### STRENGTHENING COMPETITION

¶10. (U) Beus also discussed the desire to inject more competition into various markets, e.g., rail and telecommunications. While the focus has been on unbundling in these markets, the overall goal is to find ways to broaden competition and lower prices for consumers. Ambassador Gray responded by describing how the U.S. telecommunications industry achieved strong competition by allowing strong rivalry between cable and telephone networks. Unbundling in and of itself is not the key, instead the U.S. has found enhanced competition is crucial to stimulating investment and keeping down consumer prices in a variety of markets.

¶11. (U) This cable has been cleared with USEU Ambassador C. Boyden Gray.  
TIMKEN JR